CCRC
Actuaries, LLC

STATE OF WEST VIRGINIA

PUBLIC EMPLOYEES INSURANCE AGENCY

Fiscal Year 2006 Financial Report

Fiscal Years 2006-2011

September 2006

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Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the Managing Partner in the firm of CCRC Actuaries, LLC ("CCRC Actuaries").

CCRC Actuaries has been retained by the Finance Board ("Board") of the West Virginia Public Employees Insurance Agency ("Agency") to assist it as provided under the West Virginia Public Employees Insurance Act ("Act") as amended by Senate Bill 702 in 1998 and by House Bill 4654 ("HB 4653") in 2006. As provided under the Act, the Board has retained CCRC Actuaries to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2006 ("FY 2006") and to provide quarterly financial reports. In addition, the analysis is to be on an accrued and incurred reporting basis for a projection period of five years.

Accordingly, CCRC Actuaries has additionally provided preliminary forecasts for the fiscal years ending June 30, 2007 ("FY 2007"), June 30, 2008 ("FY 2008"), June 30, 2009 ("FY 2009"), June 30, 2010 ("FY 2010"), and June 30, 2011 ("FY 2011"). This opinion of plan adequacy is based on the projections through FY 2011, using updated future revenue and plan modifications provided by the Finance Board in the plan adopted in December 2005 and since modified to reflect favorable trend experience.

Under the Act, it is the Board's responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency. Under the amended Act, the Board must provide a financing plan in which the State Fund revenue costs are financed 81.5% by State employers and 18.5% by State employees in FY 2007, and 80% by State employers and 20% by State employees in FY 2008 through FY 2011. This calculation is mandated by the PEIA enabling legislation to include all revenue contributed by State employers and State employees.

In FY 2007, PEIA will receive a Direct Transfer of $6.7 million to offset the loss of employee premiums. It is also the Board's responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of the Agency for the fiscal year are met. We have been requested to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of the Agency through FY 2011.

It should be noted that the projections in this report continue to include substantial anticipated savings from the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Part D"). Under Medicare Part D, PEIA has elected the Retiree Drug Subsidy ("RDS") option and will receive 28% of Medicare drug expenditures between $250 and $5,000 for individual in 2006. PEIA received $8,090,995 as a RDS participant from CMS in Fiscal Year 2006. In future years, we have assumed that Medicare Part D revenue to be approximately $20,000,000 in Fiscal Year 2007 and $23,000,000 in Fiscal Year 2008 and increasing thereafter based on increasing Medicare enrollment and prescription drugs inflation trends.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated the continuation in PEIA hospital savings. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of $6,000,000 in FY 2009 and later years.

In preparing the plan, CCRC Actuaries utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by the Agency, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not perform any due diligence on the information.

It should be noted that since the adoption of the new financial plan in early December, PEIA has experienced favorable claim expense. In the circumstances, and subject to the conditions described herein, based on our review, we believe the Financial Plan approved by the Board for FY 2006 through FY 2011 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of the Agency. In addition, we are forecasting that PEIA will meet the 80%/20% cost share requirement for State revenue in FY 2008 based on the scheduled revenue increases of the financial plan approved and amended by the Finance Board in December 2005.

This conclusion is based on significant revenue increases in employer and employee premiums in later fiscal years of the Plan through FY 2011 as approved and modified by the Board in December 2005. It should be noted that this report has not been adjusted for the partitioning of transactions included herein which may take place as a result of the creation of the West Virginia Retiree Health Benefit Trust Fund.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. This report contemplates significant financial savings impact resulting from the implementation of Medicare Part D. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, and the continuing evolution of the framework of the managed care options, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.

Dave Bond

Dave Bond, F.S.A., M.A.A.A.
Managing Partner

Brad Paulis

Bradley Paulis
Reviewing Partner

West Virginia Public Employees Insurance Agency
Report of Independent Actuary
Fiscal Year 2006 Financial Report

OVERVIEW

This report analyzes revenues and expenses related to funding the life and health insurance benefits of active and retired employees of the State and various related agencies, together with their dependents. This report is intended for the sole use of the Finance Board, and any other use requires written approval by CCRC Actuaries.

This report was compiled, based upon claims data collected by PEIA's third party administrators through August 2006 for prescription drugs and medical claims. Enrollment data was provided at special request from PEIA as was information on administrative expenses, managed care capitations, and plan revenues. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the legislature. In addition, some information became available through presentations made at the Finance Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA as the incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue. In addition, the Act was amended in Senate Bill 702 in 1998 to include reporting on a projection period of not to exceed five years and to include an accrual and incurred basis for revenues and expenses. At the request of the Finance Board, the reporting basis is based upon the division of employees and retirees into three funds: Active Local Employee Fund, Retired Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The Retiree Fund represents all state and local agency retirees and their survivors. The State Fund represents active state employees, colleges and university employees and county boards of education employees. The Active Local Fund, Retirees Fund, and the State Fund are allocated administrative costs and retiree subsidy costs based on each fund's proportionate total revenue levels.

KEY ASSUMPTIONS

A. Enrollment Changes

These projections include the assumption that Preferred Provider Benefit and managed care enrollment will not change from September 2006 enrollment levels for the duration of these forecasts for active employees. However, the PEIA Finance Board has requested for the projection to assume retiree enrollment growth consistent with the experience of the plan. These projections assume that the Retiree Fund will annually have 1,000 additional retirees. While we have recently observed a net increase of 763 retirees from June 2006 to September 2006, we note that from June 2004 through June 2006, the average annual increase in retirees was 1,032, approximating our current assumption.

In aggregate, September 2006 enrollment has decreased by 310 coverages since the end of FY 2006. Aggregate Preferred Provider Benefit enrollment has decreased by 66 in total over the same period, while managed care enrollment continues to cover fewer participants, with 244 less coverages. The most significant enrollment changes in FY 2007 include the previously mentioned increase of 763 total retiree coverages. In the State Fund, there continues to be a transfer of coverage from managed care to Preferred Provider Benefit coverage with overall active State enrollment declining by 983 coverages from the end of FY 2006 to September 2006. Noteworthy is the continued growth of Plan B of the PPB. September 2006 enrollment of 2,329 policies reflects a 7% increase over Fiscal Year 2006 enrollment. The following chart summarizes the current enrollment as of the selected monthly billing dates of June 2005, June 2006 and September 2006 for purposes of comparison:

PEIA		Preferred Provider Benefit			Managed Care		
Fund	Coverage	Jun-05	Jun-06	Sept-06	Jun-05	Jun-06	Sept-06
State Active	Single	18,783	18,838	18,704	3,476	3,388	3,339
	Children	4,948	4,933	4,900	708	673	635
	Family	30,993	30,737	30,152	4,382	4,105	3,961
	Total	54,724	54,508	53,756	8,566	8,166	7,935
Local Active	Single	3,549	3,767	3,716	383	376	363
	Children	592	594	570	155	157	158
	Family	4,397	4,503	4,509	103	119	110
	Total	8,538	8,864	8,795	641	652	631
Retirees	Medicare Single	15,714	16,007	16,108	-	-	-
	Medicare Family	9,153	9,385	9,520	-	-	-
	Medicare Total	24,867	25,392	25,628	-	-	-
	Non Medicare Single	2,696	2,914	3,127	183	191	192
	Non Medicare Family	3,997	4,234	4,540	175	181	188
	Non Medicare Total	6,693	7,148	7,667	358	372	380
	Retiree Total	31,560	32,540	33,295	358	372	380
Plan Total		94,822	95,912	95,846	9,565	9,190	8,946

B. Changes in Claim Backlog

The medical claim backlog has been relatively stable throughout Fiscal Year 2005 and Fiscal Year 2006.

Month	Average Backlog	Month	Average Backlog
July 2001	68,000	July 2004	81,000
August 2001	72,000	August 2004	77,000
September 2001	81,000	September 2004	76,000
October 2001	74,000	October 2004	75,000
November 2001	97,000	November 2004	71,000
December 2001	113,000	December 2004	80,000
January 2002	80,000	January 2005	73,000
February 2002	70,000	February 2005	83,000
March 2002	72,000	March 2005	84,000
April 2002	63,000	April 2005	84,000
May 2002	71,000	May 2005	78,000
June 2002	73,000	June 2005	83,000
July 2002	93,000	July 2005	89,000
August 2002	95,000	August 2005	92,000
September 2002	85,000	September 2005	82,000
October 2002	74,000	October 2005	77,000
November 2002	68,000	November 2005	71,000
December 2002	79,000	December 2005	85,000
January 2003	88,000	January 2006	81,000
February 2003	84,000	February 2006	85,000
March 2003	86,000	March 2006	86,000
April 2003	78,000	April 2006	79,000
May 2003	72,000	May 2006	84,000
June 2003	65,000	June 2006	81,000
July 2003	68,000	July 2006	67,000
August 2003	69,000	August 2006	80,000
September 2003	70,000		
October 2003	79,000		
November 2003	75,000		
December 2003	83,000		
January 2004	86,000		
February 2004	82,000		
March 2004	81,000		
April 2004	82,000		
May 2004	78,000		
June 2004	73,000		

C. <u>Trend Analysis</u>

CCRC Actuaries performed the detailed medical and prescription drugs trend analysis in the report titled, "Medical & Prescription Drugs Claims Trend Report - September, 2006". This report includes the detailed trend analysis of PEIA experience by medical and prescription drugs category and whether PEIA or Medicare was primary. Based on the analysis, we have reduced the FY 2007 Non-Medicare medical claim trend to 6.5% and the FY 2007 Medicare medical claim trend to 6.0%. Based on PEIA's favorable prescription drug experience, we have reduced our trend assumption for all prescription drugs coverage to 12.0% in FY 2007.

The current projection assumes the trends on the following table:

Claim Type	Previous Assumption FY 2007 Trend	Updated Assumption FY 2007 Trend
Non-Medicare – Medical	8.5%	6.5%
Non-Medicare – Drugs	17.0%	12.0%
Medicare – Medical	9.0%	6.0%
Medicare – Drugs	17.0%	12.0%

In addition, we have assumed that trends will remain the same for FY 2008 and then increase by 0.5% in each successive Fiscal Year beginning in FY 2009. At the Finance Board's request the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2.0% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2.0% above the Baseline Scenario.

The following chart summarizes the trend results observed for the plan using data through August 2006. It is important to note that these trends ***<u>have not</u>*** been adjusted to reflect savings as a result of the expansion of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies nor changes in the benefit structure. In developing the claim cost projection, we have reflected for benefit and reimbursement changes as an adjustment to the gross trend assumption.

PEIA Historical Trends

Fiscal Year	Medical Medicare	Medical Non-Medicare	Drugs Medicare	Drugs Non-Medicare	Total
1994	5%	3%	15%	20%	6%
1995	5%	9%	12%	18%	7%
1996	12%	12%	15%	31%	15%
1997	3%	10%	7%	19%	10%
1998	4%	-3%	8%	4%	0%
1999	4%	3%	15%	22%	8%
2000	9%	-6%	-10%	-15%	-6%
2001	6%	17%	30%	35%	20%
2002	3%	5%	19%	17%	8%
2003	3%	1%	13%	15%	6%
2004	12%	10%	13%	10%	10%
2005	6%	6%	13%	12%	8%
2006	6%	2%	8%	9%	5%

D. Enrollment, Claim, Expense and Revenue Assumptions

Using PEIA paid claim data through August 2006 for medical claims and for prescription drugs claims, average annualized incurred unit claim costs were developed for the State Fund, the Local Fund and the Retiree Fund for both self-funded and managed care coverages. CCRC Actuaries has developed the claim cost on an adjusted exposure basis using the respective expected claim cost for each coverage type. The adjusted exposure methodology weights the expected claim cost under each coverage type for single, member and children, and family coverages based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. The methodology results in different weighting for coverages whether PEIA is primary or secondary payor to Medicare. Based on this methodology, the result of FY 2006 and the projection of FY 2007 claims and expenses are summarized in the following charts. It should be noted that all of these numbers are on a per policy basis.

Fiscal Year 2006 Result			Revenue		Expenses		
Fund	Program	Policies	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drugs Costs	Monthly Capitation Costs
State	PPB	54,496	$ 556	$ 108	$ 352	$ 121	
	Managed Care	8,219	$ 534	$ 128			$ 493
	Total	62,715					
Local	PPB	8,724	$ 621	$ -	$ 327	$ 105	
	Managed Care	641	$ 562	$ -			$ 425
	Total	9,365					
Retiree	PPB - Medicare	25,252			$ 161	224	
	PPB – Non-Medicare	7,162			$ 371	190	
	PPB - Total	32,414	$ -	$ 147	$ 207	216	
	Managed Care	362	$ -	$ 454			$ 958
	Total	32,776					

Fiscal Year 2007 Projection			Revenue		Expenses		
Fund	Program	Policies	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drugs Costs	Monthly Capitation Costs
State	PPB	53,802	$ 560	$ 128	$ 374	$ 135	
	Managed Care	7,922	$ 554	$ 133			$ 562
	Total	61,724					
Local	PPB	8,794	$ 639	$ -	$ 347	$ 118	
	Managed Care	632	$ 613	$ -			$ 475
	Total	9,426					
Retiree	PPB - Medicare	25,770			$ 170	251	
	PPB – Non-Medicare	7,788			$ 391	211	
	PPB - Total	33,558	$ -	$ 161	$ 222	242	
	Managed Care	377	$ -	$ 436			$ 1,012
	Total	33,935					

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on average reserve levels for each fund.

The following charts summarize the additional revenues from employers, employees, retirees, Medicare Part D reimbursements and direct transfers assumed in the report. The enactment of House Bill 4654, changes in enrollment and favorable plan experience require some modifications to the Financial Plan implemented by the Finance Board in December 2005. The schedules below assume that the 80%/20% cost sharing will be met in FY 2008 and a plan reserve of 14% will remain at the end of FY 2010.

The December 2005 Financial Plan revenue increases have been reduced to the levels shown in the second chart to reflect the favorable plan trend experience. Both sets of revenue increases target a long term reserve level of 14% of plan expenditures as of the end of Fiscal Year 2010. In addition, we have tentatively projected FY 2011 increases. The adjusted revenue increases result in a reserve level of 14% as of the end of Fiscal Year 2010 and 12% as of the end of Fiscal Year 2011. In Fiscal Year 2008, the State Employer Revenue increase has been reduced from $20,000,000 to no increase, and the State Employee Premium increase has been reduced from $15,200,000 to $8,100,000. Note that the State Employee Premium increase is necessary to comply with the 20% Employee Premium share mandate.

Original Board Decisions – December 2005

Source	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Additional State Employer Revenue	$5,000,000	$20,000,000	$68,000,000	$80,000,000
Additional Local Agency Revenue	$2,000,000	$4,000,000	$8,000,000	$9,500,000
Additional Employee Premiums	$11,700,000	$15,200,000	$17,000,000	$20,000,000
Additional Retiree Premiums	$4,100,000	$10,500,000	$12,400,000	$15,500,000
Medicare Part D Revenue	$20,000,000	$23,000,000	$27,000,000	$32,000,000
Direct Transfer	$6,700,000	$0	$6,000,000	$6,000,000

Adjusted Board Decisions – September 2006

Source	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Additional State Employer Revenue	$5,000,000	$0	$20,000,000	$50,000,000	$80,000,000
Additional Local Agency Revenue	$2,000,000	$0	$3,000,000	$7,000,000	$11,000,000
Additional Employee Premiums	$11,700,000	$8,100,000	$5,000,000	$12,500,000	$20,000,000
Additional Retiree Premiums	$4,100,000	$5,700,000	$3,700,000	$9,700,000	$16,400,000
Medicare Part D Revenue	$20,000,000	$23,000,000	$27,000,000	$32,000,000	$38,000,000
Direct Transfer	$6,700,000	$0	$6,000,000	$6,000,000	$6,000,000

Under H. B. 4654, Public Employees Insurance Agency Finance Board is allowed to delay the eighty-twenty split between employer and employee due to a partial offset by a legislative appropriation. As a result, the scheduled employee premium increase of $18,400,000 has been reduced by $6,700,000 to $11,700,000 in Fiscal Year 2007. Based on Finance Board input this projection is based on the assumption that retiree premium percentage increases in the future will be identical to active employee premium percentage increases for Fiscal Year 2008 and later years.

Future fiscal year state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee premiums represent employee premiums paid by active employees participating in the State Fund. Additional retiree premiums represent premiums paid by retirees either directly or through Sick and Annual Leave credits.

In addition, PEIA management has assumed that the Retiree Premium Assistance Program will grow as a direct result from the required retiree premium increases in the Financial Plan. The program's cost is currently projected to grow from approximately $2.9 million in FY 2006 to approximately $7.3 million in FY 2011, based on the substantial increases in retiree premiums assumed and projected retiree enrollment growth in the financial plan.

E. Provider Reimbursement Changes

The projections assume significant revenue from Medicare Part D and the Medicaid/PEIA Hospital Bill. We have assumed that PEIA's continual participation in the Retiree Drug Subsidy program under Medicare Part D will result in revenue of approximately $20,000,000 in Fiscal Year 2007 and $23,000,000 in Fiscal Year 2008 and increasing thereafter based on increasing Medicare enrollment and prescription drugs inflation trends.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated the continuation in PEIA hospital savings. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of $6,000,000 in Fiscal Year 2009.

FISCAL YEAR 2006 FINANCIAL RESULT

The financial forecast for FY 2006 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2006, shows accrued revenue of $660,774,726 and incurred plan expenses of $609,465,664 to produce a fiscal year surplus of $51,309,062. This surplus was last projected to be $41,330,218 in the March 31, 2006 Quarterly Report dated June 2006. The principal reason for the approximately $10 million improvement in surplus for Fiscal Year 2006 is the result of lower medical claim costs and favorable trend experience in both medical and drugs claims. Note that the FY 2006 ending reserve of $219,892,342 includes $29,024,595 of funds transferred to the General Fund.

FISCAL YEAR 2007 FORECAST

The financial forecast for FY 2007 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2007, projects accrued revenue of $697,581,883 and incurred plan expenses of $663,887,814 to produce a fiscal year surplus of $33,694,069. It was last projected to be a surplus of $9,620,036 in the March 31, 2006 Quarterly Report dated June 2006.

Under the Baseline Scenario, FY 2007 is projected to end with a reserve of $253,586,411, which represents 35% of projected expenditures in FY 2008. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to $264,210,770 and under the Pessimistic Scenario, the ending reserve is expected to decrease to $242,941,594.

FISCAL YEAR 2008 FORECAST

The financial forecast for FY 2008 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2008, projects accrued revenue of $713,773,634 and incurred plan expenses of $725,258,928 to produce a fiscal year deficit of ($11,485,294). It was last projected to be a deficit of ($23,448,497) in the March 31, 2006 Quarterly Report dated June 2006.

Under the Baseline Scenario, FY 2008 is projected to end with a reserve of $242,101,117, which represents 30% of projected expenditures in FY 2009. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to $275,891,464 and under the Pessimistic Scenario, the ending reserve is expected to decrease to $207,838,146.

FISCAL YEAR 2009 FORECAST

The financial forecast for FY 2009 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2009, projects accrued revenue of $760,532,748 and incurred plan expenses of $816,990,141 to produce a fiscal year deficit of ($56,457,393). It was last projected to be a deficit of ($26,474,838) in the March 31, 2006 Quarterly Report dated June 2006.

Under the Baseline Scenario, FY 2009 is projected to end with a reserve of $185,643,724, which represents 21% of projected expenditures in FY 2010. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to $258,895,987 and under the Pessimistic Scenario, the ending reserve is expected to decrease to $110,428,829.

FISCAL YEAR 2010 FORECAST

The financial forecast for FY 2010 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2010, projects accrued revenue of $849,536,919 and incurred plan expenses of $898,810,070 to produce a fiscal year deficit of ($49,273,151). It was last projected to be a deficit of ($9,787,172) in the March 31, 2006 Quarterly Report dated June 2006.

Under the Baseline Scenario, FY 2010 is projected to end with a reserve of $136,370,573, which represents 14% of projected expenditures in FY 2011. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to $267,759,148 and under the Pessimistic Scenario, the ending reserve is expected to decrease to ($245,711).

FISCAL YEAR 2011 FORECAST

The financial forecast for FY 2011 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2011, projects accrued revenue of $990,143,356 and incurred plan expenses of $993,437,974 to produce a fiscal year deficit of ($3,294,618).

Under the Baseline Scenario, FY 2011 is projected to end with a reserve of $133,075,955, which represents 12% of projected expenditures in FY 2012. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to $345,127,841 and under the Pessimistic Scenario, the ending reserve is expected to decrease to ($90,230,478).

LITIGATION

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

SUMMARY

With projected changes to the Plan as adopted in the Financial Plan by the PEIA Finance Board, we are forecasting that the Plan will meet the 10% reserve target through the projection period ending with the Fiscal Year 2011 using the Baseline assumptions. These projections are based on significant Medicare Part D subsidies and significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement; possible changes in methodology of managed care premium calculation; and changes in the prescription drugs program, can be expected to further exacerbate the difficulty of projecting future medical and drugs claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as Medicare and Medicaid reform. On the national level, it would not be surprising to see significant changes in the Medicare Part D program, which will impact PEIA financial projections. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the legislatively mandated requirement of a five-year projection, it should be assumed that constant modifications would be required.

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL REPORT
F I S C A L   Y E A R   2 0 0 6

PERIOD 7/1/2005 - 6/30/2006

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 65,007,445	$ -	$ 363,653,407	$ 428,660,852
Employer Premiums - MCO	4,320,200	-	52,623,681	56,943,881
Employee Premiums - PPB	-	57,239,402	70,901,913	128,141,315
Employee Premiums - MCO	-	1,971,219	12,619,573	14,590,792
Direct Transfers	-	-	4,887,369	4,887,369
Investment Income	874,950	-	7,473,346	8,348,296
Retiree Subsidy Revenue	-	3,507,751	-	3,507,751
COBRA Premiums	308,905	-	1,235,621	1,544,526
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	8,090,995	-	8,090,995
Total Revenue	$ 70,956,518	$ 70,809,367	$ 519,008,841	$ 660,774,726
Program Expenses				
Medical Claims	$ 34,232,311	$ 80,632,091	$ 230,390,895	$ 345,255,297
Prescription Drug Claims	11,027,992	84,036,623	79,073,788	174,138,403
Managed Care Capitations	3,271,566	4,161,775	48,585,614	56,018,955
Administration	2,538,416	2,172,325	18,342,508	23,053,249
Life Insurance	754,307	642,833	5,050,711	6,447,851
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	2,914,333	-	2,914,333
Director's Discretionary Fund	-	-	-	-
Total Expenses	$ 52,023,666	$ 174,559,980	$ 382,882,018	$ 609,465,664
Retiree Subsidy Allocations	$ 12,478,330	$ (103,750,613)	$ 91,272,283	$ -
Fiscal Year Results	$ 6,454,522	$ -	$ 44,854,540	$ 51,309,062
Beginning Plan Reserve	16,215,366	-	152,367,914	168,583,280
Ending Plan Reserve	$ 22,669,888	$ -	$ 197,222,454	$ 219,892,342

KEY ASSUMPTIONS

		Claim and Other Expense Trends		
Additional State Employer Premiums	$ 40,000,000	Eligibility	Medical	Drugs
Additional Local Agency Revenue	$ 3,000,000	Non-Medicare	8.5%	17.0%
Additional State Employee Premiums	$ 2,850,000	Medicare	9.0%	17.0%
Additional Retiree Premiums	$ 2,000,000	Capitations		13.3%
Direct Transfers	$ 5,000,000	Administrative Expense		5.3%
Number of Net New Retirees	1,000			

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
F I S C A L Y E A R 2 0 0 7

PERIOD 7/1/2006 - 6/30/2007

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 67,418,373	$ -	$ 361,802,352	$ 429,220,725
Employer Premiums - MCO	4,647,865	-	52,623,681	57,271,546
Employee Premiums - PPB	-	64,637,261	82,960,474	147,597,735
Employee Premiums - MCO	-	1,972,030	12,619,573	14,591,603
Direct Transfers	-	-	6,700,000	6,700,000
Investment Income	1,148,485	-	9,319,015	10,467,500
Retiree Subsidy Revenue	-	4,097,755	-	4,097,755
COBRA Premiums	315,214	-	1,260,856	1,576,070
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	20,000,000	-	20,000,000
Total Revenue	$ 73,974,955	$ 90,707,046	$ 532,899,882	$ 697,581,883
Program Expenses				
Medical Claims	$ 36,654,873	$ 89,241,456	$ 241,269,349	$ 367,165,678
Prescription Drug Claims	12,443,093	97,271,985	87,275,279	196,990,357
Managed Care Capitations	3,598,722	4,577,952	53,444,175	61,620,849
Administration	2,665,337	2,280,941	19,259,633	24,205,911
Life Insurance	792,022	674,975	5,303,246	6,770,243
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	3,497,200	-	3,497,200
Director's Discretionary Fund	174,058	661,212	1,164,730	2,000,000
Total Expenses	$ 56,527,179	$ 198,205,721	$ 409,154,914	$ 663,887,814
Retiree Subsidy Allocations	$ 13,103,542	$ (107,498,675)	$ 94,395,133	$ -
Fiscal Year Results	$ 4,344,234	$ -	$ 29,349,835	$ 33,694,069
Beginning Plan Reserve	22,669,888	-	197,222,454	219,892,342
Ending Plan Reserve	$ 27,014,122	$ -	$ 226,572,289	$ 253,586,411

KEY ASSUMPTIONS

		Claim and Other Expense Trends		
Additional State Employer Premiums	$ 5,000,000			
Additional Local Agency Revenue	$ 2,000,000	Eligibility	Medical	Drugs
Additional State Employee Premiums	$ 11,700,000	Non-Medicare	6.5%	12.0%
Additional Retiree Premiums	$ 4,100,000	Medicare	6.0%	12.0%
Direct Transfers	$ 6,700,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
F I S C A L   Y E A R   2 0 0 8

PERIOD 7/1/2007 - 6/30/2008

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 67,418,373	$ -	$ 361,802,352	$ 429,220,725
Employer Premiums - MCO	4,647,865	-	52,623,681	57,271,546
Employee Premiums - PPB	-	73,923,638	89,991,019	163,914,657
Employee Premiums - MCO	-	2,256,139	13,689,028	15,945,167
Direct Transfers	-	-	-	-
Investment Income	1,342,914	-	10,624,420	11,967,334
Retiree Subsidy Revenue	-	4,786,997	-	4,786,997
COBRA Premiums	321,652	-	1,286,607	1,608,259
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	23,000,000	-	23,000,000
Total Revenue	$ 74,175,822	$ 103,966,774	$ 535,631,038	$ 713,773,634
Program Expenses				
Medical Claims	$ 39,040,315	$ 97,796,480	$ 256,744,653	$ 393,581,448
Prescription Drug Claims	13,937,248	111,926,875	97,671,244	223,535,367
Managed Care Capitations	3,958,594	5,035,748	58,788,592	67,782,934
Administration	2,798,604	2,394,988	20,222,615	25,416,207
Life Insurance	831,623	708,724	5,568,409	7,108,756
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	4,196,640	-	4,196,640
Director's Discretionary Fund	171,694	679,688	1,148,618	2,000,000
Total Expenses	$ 60,937,152	$ 222,739,143	$ 441,582,633	$ 725,258,928
Retiree Subsidy Allocations	$ 14,447,260	$ (118,772,369)	$ 104,325,109	$ -
Fiscal Year Results	$ (1,208,590)	$ -	$ (10,276,704)	$ (11,485,294)
Beginning Plan Reserve	27,014,122	-	226,572,289	253,586,411
Ending Plan Reserve	$ 25,805,532	$ -	$ 216,295,585	$ 242,101,117

KEY ASSUMPTIONS

		Claim and Other Expense Trends		
Additional State Employer Premiums	$ -	Eligibility	Medical	Drugs
Additional Local Agency Revenue	$ -	Non-Medicare	6.5%	12.0%
Additional State Employee Premiums	$ 8,100,000	Medicare	6.0%	12.0%
Additional Retiree Premiums	$ 5,700,000	Capitations		10.0%
Direct Transfers	$ -	Administrative Expense		5.0%
Number of Net New Retirees	1,000			

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
F I S C A L Y E A R 2 0 0 9

PERIOD 7/1/2008 - 6/30/2009

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 70,224,890	$ -	$ 379,262,759	$ 449,487,649
Employer Premiums - MCO	4,841,348	-	55,163,274	60,004,622
Employee Premiums - PPB	-	81,731,774	94,330,862	176,062,636
Employee Premiums - MCO	-	2,496,030	14,349,185	16,845,215
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,314,994	-	10,525,408	11,840,402
Retiree Subsidy Revenue	-	5,592,170	-	5,592,170
COBRA Premiums	328,221	-	1,312,884	1,641,105
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	27,000,000	-	27,000,000
Total Revenue	$ 77,154,471	$ 116,819,974	$ 566,558,303	$ 760,532,748
Program Expenses				
Medical Claims	$ 41,684,612	$ 110,363,703	$ 293,324,021	$ 445,372,336
Prescription Drug Claims	15,648,092	128,923,011	109,660,719	254,231,822
Managed Care Capitations	4,354,454	5,539,322	64,667,452	74,561,228
Administration	2,938,534	2,514,738	21,233,746	26,687,018
Life Insurance	873,204	744,160	5,846,829	7,464,193
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	5,035,968	-	5,035,968
Director's Discretionary Fund	163,900	684,063	1,152,037	2,000,000
Total Expenses	$ 65,861,870	$ 253,804,965	$ 497,323,306	$ 816,990,141
Retiree Subsidy Allocations	$ 16,418,821	$ (136,984,991)	$ 120,566,170	$ -
Fiscal Year Results	$ (5,126,220)	$ -	$ (51,331,173)	$ (56,457,393)
Beginning Plan Reserve	25,805,532	-	216,295,585	242,101,117
Ending Plan Reserve	$ 20,679,312	$ -	$ 164,964,412	$ 185,643,724

KEY ASSUMPTIONS

Additional State Employer Premiums	$ 20,000,000	**Claim and Other Expense Trends**		
Additional Local Agency Revenue	$ 3,000,000	Eligibility	Medical	Drugs
Additional State Employee Premiums	$ 5,000,000	Non-Medicare	7.0%	12.5%
Additional Retiree Premiums	$ 3,700,000	Medicare	6.5%	12.5%
Direct Transfers	$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
F I S C A L   Y E A R   2 0 1 0

PERIOD 7/1/2009 - 6/30/2010

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 76,773,430	$ -	$ 422,913,775	$ 499,687,205
Employer Premiums - MCO	5,292,808	-	61,512,258	66,805,066
Employee Premiums - PPB	-	96,551,756	105,180,469	201,732,225
Employee Premiums - MCO	-	2,948,998	15,999,578	18,948,576
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,167,718	-	8,929,786	10,097,504
Retiree Subsidy Revenue	-	6,532,773	-	6,532,773
COBRA Premiums	334,924	-	1,339,697	1,674,621
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	32,000,000	-	32,000,000
Total Revenue	$ 84,013,898	$ 138,033,527	$ 627,489,494	$ 849,536,919
Program Expenses				
Medical Claims	$ 44,716,517	$ 121,493,862	$ 314,658,769	$ 480,869,148
Prescription Drug Claims	17,647,218	149,066,393	123,670,450	290,384,061
Managed Care Capitations	4,789,899	6,093,255	71,134,197	82,017,351
Administration	3,085,461	2,640,474	22,295,433	28,021,368
Life Insurance	916,865	781,368	6,139,171	7,837,404
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	6,043,162	-	6,043,162
Director's Discretionary Fund	161,721	701,612	1,136,667	2,000,000
Total Expenses	$ 71,516,755	$ 286,820,126	$ 540,473,189	$ 898,810,070
Retiree Subsidy Allocations	$ 17,568,633	$ (148,786,599)	$ 131,217,966	$ -
Fiscal Year Results	$ (5,071,490)	$ -	$ (44,201,661)	$ (49,273,151)
Beginning Plan Reserve	20,679,312	-	164,964,412	185,643,724
Ending Plan Reserve	$ 15,607,822	$ -	$ 120,762,751	$ 136,370,573

KEY ASSUMPTIONS

Additional State Employer Premiums	$ 50,000,000	**Claim and Other Expense Trends**		
Additional Local Agency Revenue	$ 7,000,000	Eligibility	Medical	Drugs
Additional State Employee Premiums	$ 12,500,000	Non-Medicare	7.5%	13.0%
Additional Retiree Premiums	$ 9,700,000	Medicare	7.0%	13.0%
Direct Transfers	$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
F I S C A L   Y E A R   2 0 1 1

PERIOD 7/1/2010 - 6/30/2011

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 87,063,992	$ -	$ 492,755,401	$ 579,819,393
Employer Premiums - MCO	6,002,246	-	71,670,632	77,672,878
Employee Premiums - PPB	-	119,760,958	122,539,839	242,300,797
Employee Premiums - MCO	-	3,656,903	18,640,208	22,297,111
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,026,915	-	7,626,906	8,653,821
Retiree Subsidy Revenue	-	7,631,585	-	7,631,585
COBRA Premiums	341,764	-	1,367,058	1,708,822
Administrative Fees	445,018	-	5,613,931	6,058,949
Medicare RDS Reimbursement	-	38,000,000	-	38,000,000
Total Revenue	$ 94,879,935	$ 169,049,446	$ 726,213,975	$ 990,143,356
Program Expenses				
Medical Claims	$ 48,192,616	$ 134,271,027	$ 339,119,190	$ 521,582,833
Prescription Drug Claims	19,990,011	173,016,387	140,088,577	333,094,975
Managed Care Capitations	5,268,889	6,702,580	78,247,617	90,219,086
Administration	3,239,734	2,772,498	23,410,205	29,422,437
Life Insurance	962,708	820,436	6,446,129	8,229,273
Wellness	199,074	-	1,438,502	1,637,576
Retiree Assistance Program	-	7,251,794	-	7,251,794
Director's Discretionary Fund	159,552	719,072	1,121,376	2,000,000
Total Expenses	$ 78,012,584	$ 325,553,794	$ 589,871,596	$ 993,437,974
Retiree Subsidy Allocations	$ 18,084,560	$ (156,504,348)	$ 138,419,788	$ -
Fiscal Year Results	$ (1,217,209)	$ -	$ (2,077,409)	$ (3,294,618)
Beginning Plan Reserve	15,607,822	-	120,762,751	136,370,573
Ending Plan Reserve	$ 14,390,613	$ -	$ 118,685,342	$ 133,075,955

KEY ASSUMPTIONS

Additional State Employer Premiums	$ 80,000,000	**Claim and Other Expense Trends**		
Additional Local Agency Revenue	$ 11,000,000	Eligibility	Medical	Drugs
Additional State Employee Premiums	$ 16,400,000	Non-Medicare	8.0%	13.5%
Additional Retiree Premiums	$ 20,000,000	Medicare	7.5%	13.5%
Direct Transfers	$ 6,000,000	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%